

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 FS-01 ABF-01 CU-04 AID-05 CIAE-00
COME-00 EB-08 FRB-03 INR-07 NSAE-00 USIA-06
TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
AGRE-00 OPR-02 NSC-05 SS-15 STR-06 CEA-01 DODE-00
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E.O. 11652: N/A
TAGS: EFIN, IR
SUBJ: U.S. AND IRANIAN FOREIGN EXCHANGE RATE POLICIES

REF: 77 TEHRAN 10899

1. THE CENTRAL BANK OF IRAN (CBI) NOTIFIED IRANIAN BANKS BY A DECEMBER 14 CIRCULAR THAT IT HAD LIFTED THE "FIVE DAYS" REQUISITIE (REFTEL, PARA TWO) FROM ITS RIAL/DOLLAR EXCHANGE RATE POLICY AND WOULD MAKE RATE ADJUSTMENTS BASED UPON ITS FORECAST OF THE FUTURE OF THE US DOLLAR. CBI OFFICIALS (VICE GOVERNOR SHIRAZI AND DIRECTOR GENERAL INTERNATIONAL NADERI) CONFIRMED THAT THE REASON FOR THIS DECISION WAS TWOFOLD: (1) BANKERS AND OTHER MONEY DEALERS WERE USING THE CBI FORMULA TO PREDICT EXCHANGE RATE ADJUSTMENTS AND WERE SPECULATING IN CURRENCIES ACCORDINGLY, AND (2) THE INTERNATIONAL EXCHANGE MARKETS WERE INCREASINGLY LESS RELIABLE INDICATORS OF A CURRENCY'S WORTH, PARTICULARLY THE US DOLLAR. IN VICE GOVERNOR SHIRAZI'S WORDS TO EMBOFF, "WE CAN'T ESTABLISH OUR CURRENCY'S RELATIVE WORTH ON THE BASIS OF A SYSTEM WHICH IS DETERMINED BY BILL MILLERS COUGH OR ARTHUR BURNS' SNEEZE AND MOVE AS ERRATICALLY AS A COMMODITY MARKET." THUS,
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ALTHOUGH ACCORDING TO THE CBI'S EXCHANGE RATE FORMULA (I.E. SDR/US\$ RATE TIMES US\$/RIAL AV. BUY-SELL RATE DIVIDED BY THE RIAL/SDR CENTER RATE OF 82.2425) THE RIAL HAS BEEN ABOVE THE TUNNEL FOR SOME WEEKS, THERE HAS BEEN NO ADJUSTMENT IN THE \$/RIAL RATE SINCE SEPTEMBER 10, AS REPORTED IN REFTEL. IT IS NOT KNOWN IF THE CBI HAS NOTIFIED THE IMF OF ITS EFFECTIVE ABANDONMENT OF ITS

EXCHANGE RATE FORMULA.

2. NOT SURPRISINGLY, EMBASSY OFFICIALS HAVE HEARD MANY NEGATIVE COMMENTS CONCERNING THE U.S. DOLLAR POLICY. SINCE IRAN EARNS THE VAST MAJORITY OF ITS FOREIGN EXCHANGE IN US DOLLARS IT SUFFERS WHEN THE DOLLARS WEAKENS, PARTICULARLY SINCE THE MAJORITY OF ITS IMPORTS ARE FROM THE EC AND JAPAN. MOST NOTABLE WAS DR. SHIRAZI'S COMMENT THAT UNTIL THE U.S. ANNOUNCES SOME MEDIUM TERM MECHANISMS/ARRANGEMENTS FOR DOLLAR SUPPORT THERE WILL CONTINUE TO BE DOLLAR WEAKNESS AND UNCERTAINTY. THE RECENTLY ANNOUNCED USE OF SWAP ARRANGEMENTS, BEING OF A TEMPORARY NATURE, WOULD, HE SAID, SUPPORT ONLY TEMPORARY RELIEF OF THE EXCHANGE MARKETS, A FACT WHICH HE SAID IS ALREADY DOCUMENTED. HAVING EXPRESSED HIS BELIEF THAT THE DOLLAR IS SIGNIFICANTLY UNDERVALUED AND THAT ITS WEAKNESS IS DUE TO PSYCHOLOGICAL FACTORS, SHIRAZI EMPHASIZED THE NEED FOR THE US TO ENGAGE IN PSYCHOLOGICAL DOLLAR WARFARE BY PROCLAIMING DEFENSE OF THE DOLLAR WHICH HAVE APPARENT LONGER-TERM VALUE EVEN IF THEY ARE NOT, IN FACT, UTILIZED.

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